

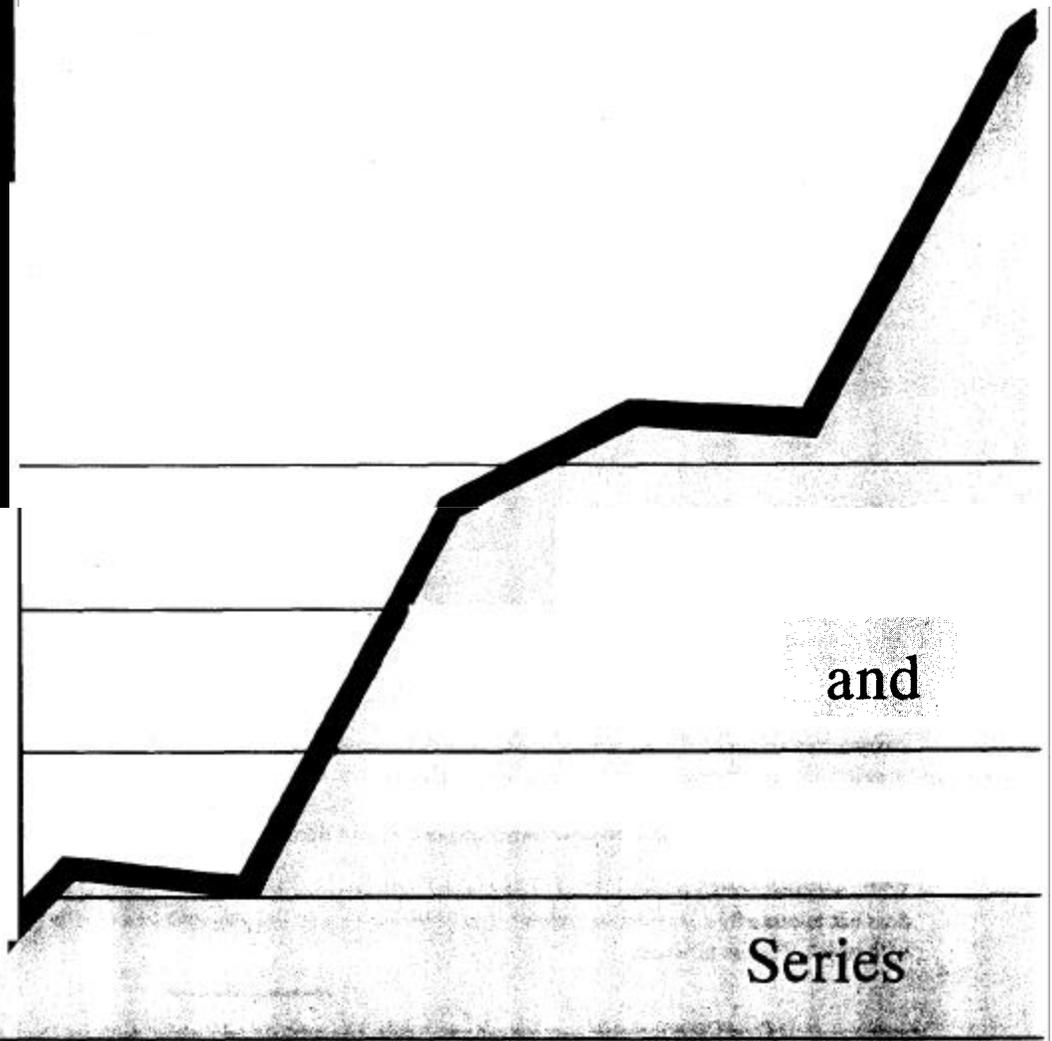
SBA

U.S. Small Business
Administration

MP-21

*I*ntroduction to Strategic Planning

Michael L. Policastro
Vice President
The Travelers
Hartford, Connecticut



Building America's Future

an'agemen*,,,,,'

Plann,i*t%.,,

TABLE OF CONTENTS

INTRODUCTION	WHAT IS STRATEGIC PLANNING?	1
IS STRATEGIC PLANNING NECESSARY?		1
ANALYZE THE BUSINESS		2
Analysis of Strengths, Weaknesses, Opportunities and Threats (SWOTS)	Mission Statement	2
Key Results Areas (KRAS) Strategic Objectives Tactical Objectives Budgeting and the Strategic Plan Target Dates ...	Coordinating and Monitoring the Strategic Plan.	7
		5
		5
		6
		6
		6
ENVIRONMENT		6
THE PLANNING SESSION		7
A. Strategic Planning Session Agenda		8
B. Strategic Plan Format		11
C. Objectives, Responsibilities and Targets.		13
C-1. Objectives, Responsibilities and Targets (Completed Sample)		15
D. Individual Objectives Summary/Status Report		17
E. Information Resources		19

COMPLETING AND COMMUNICATING THE PLAN
 WHY STRATEGIC PLANS FAIL
 APPENDICES

U. & Small Business Administration

INTRODUCTION

This publication introduces you to strategic planning. Such a plan will help you to

- Take advantage of your company's strengths.
- Eliminate or reduce your company's weaknesses.
- Capitalize on opportunities and emerging trends.
- Take defensive steps to reduce threats facing your

- Bring together all your **company's resources**, and direct them toward specific goals in areas such as sales growth, **profit, productivity and service**.
- Prioritize and **document all the goals** your company wants to accomplish over the next three to five years.
- Allocate resources and assign responsibilities.

WHAT IS STRATEGIC PLANNING?

business.

Ask ten people for a definition of strategic planning and you will probably receive ten different answers. Most agree that it is a way to identify long-term goals and to direct your company toward fulfilling those goals.

- Deciding what you want the business to look like in three to five years.
- Recognizing your company's
 - Strengths

IS STRATEGIC PLANNING NECESSARY?

Strategic planning involves

- Assessing the current business environment.
- Defining your company's purpose ("mission").

- Weaknesses
- Opportunities
- Threats
- Mapping out a course to take the company from its current to its desired position.

"My business is very small. Do I really need to develop a plan like this?"

The best response to this question is, "Only if you want to stay in business and prosper." Consider the following reasons for strategic planning.

Technology and the fast pace of change are making business management more complex. Strategic planning will help you foresee and react quickly to market changes and opportunities and identify areas in which your business is lagging behind.

- Good financial control alone is not enough to ensure your business's success. In addition to a budget, you need long-term goals to determine the future direction of your company.
- You can use strategic planning to involve employees in all areas of your business, so they share your goals.
- You can use your plan to communicate with bankers, who often do not understand the nature of your business. Bankers must be convinced that your company is in control of its future before

Competition is becoming tougher. In most cases, small businesses find themselves competing with much larger companies--ones that know the benefits of strategic planning and practice it. From a defensive standpoint, it is important that you apply the same concepts to your operation.

they will lay their money on the line. A comprehensive plan aimed at sustained growth in sales and earnings can be very convincing.

- o A plan is also very helpful in dealing with your suppliers, advertisers, attorney, accountant, auditor, investors and business consultants.

Let's take a closer look at the process.

U.S. Small Business Administration

ANALYZE THE BUSINESS ENVIRONMENT

The strategic planning process begins with an assessment of the **current economic situation**. First, examine factors **outside of the company that can affect your** company's performance. In most cases, it makes sense to focus on the national, local or regional, and industry economic forecasts. This part of the analysis should begin early, at least a quarter or so before you begin the formal planning process. Use the following common sources for information:

- The *Wall Street Journal*.
- The *New York Times*.
- *Business Week*.
- Industry periodicals.

- U.S. Department of Commerce (especially for the 12 leading economic indicators).
- Federal Reserve banks.
- Local industry associates.
- Local chambers of commerce.
- The public library

After you have collected sufficient data, assess its present and future impact on your business. For example, slow housing starts, weak automobile sales, reduction in real disposable personal income and increasing levels of unemployment signal reduced future demand for goods and services.

THE PLANNING SESSION

After preparing a concise written assessment of the economic environment, you are ready to meet with key people in your organization for a marathon planning session. Make sure that all key departments (e.g., sales, service, finance, processing, manufacturing, etc.) are represented to ensure that a realistic plan with a common goal is developed.

The meeting will be most effective in a comfortable place that is free of interruptions and distractions. Often it is best to get away from the business premises. For many businesses the process takes two full days, so you may want to accomplish it over a weekend.

The sessions will function best if they are structured. The following is a proven technique:

- Appoint someone to be the facilitator of the group. It should be someone impartial and not so locked into his or her own ideas that he or she cannot see the potential merit in others' ideas.
- Agree in advance that creativity is desirable, so no idea brought up at the session will be immediately discarded as impractical or undesirable. (Sometimes impractical or impossible suggestions can spark other extremely positive ideas).

- Appoint someone to write down the essence of what the group discusses and decides.

- Equip the room with a flip chart, felt tip markers, and masking tape or thumb tacks.

- Follow an agenda. The one shown in Appendix A has proven very effective.

After the opening comments, a review of the session's procedures and a report on the economic environment, you are ready to begin the most important part of the process.

Analysis of Strengths, Weaknesses, Opportunities and Threats (SWOTS)

Here the facilitator divides a flip chart page into two

sections and labels one half "Strengths and Weaknesses" and the other half "Opportunities and Threats" (together known as SWOTS).

Each SWOT is to be written concisely on the flip chart. Everyone is asked to identify SWOTS, starting with one person and proceeding around the room in a clockwise fashion. This technique elicits a response from each participant and rapidly creates a charged atmosphere.

Example of Flip Chart Format for SWOT Analysis

	Strengths	Weaknesses
1. 2. 3. 4. 5.		1. 2. 3. 4. 5.
	Opportunities	Threats
1. 2. 3. 4. 5.	2. 3. 4. 5.	
<hr style="width: 20%; margin: 0 auto;"/>		
<p>Threats that might be suggested by participants during the SWOT analysis:</p> <p>Strengths:</p> <ul style="list-style-type: none"> • Over half of the residents in our marketing territory are affluent. • Our company is well known. • We were first in the area to institute telemarketing. • Suppliers give us excellent service. • Our financial position and credit rating are good. • We have strong salespeople at the top of our organization. <p>Opportunities:</p> <ul style="list-style-type: none"> • ne adjacent town is over 50 percent affluent residents. Penetrating that market would stimulate significant sales growth. • One of our suppliers has offered co-op advertising, including a billboard. • Most of our customers use us for only part of what we can do with our products and services; the potential for more sales within our existing customer base is high. • Our competitor is aging and may be receptive to a buy-out if we offer an employment agreement until age 65. 	<p style="text-align: center;">Examples of Strengths, Weaknesses, Opportunities and program to include staffers</p> <ul style="list-style-type: none"> ◦ Implementing a (showing our full range of products and services) in every mailing to our existing customers could generate cross-sales. ◦ Implementing new telephone pick-up and message handling procedures could improve customer service. <p>Weaknesses:</p> <ul style="list-style-type: none"> ◦ Recession, business slowdown. ◦ Telemarketing operation is generating an abundance of price-conscious customers who may leave us at the next price adjustment. ◦ The independent contractors we use are difficult to control from a reliability and quality standpoint. ◦ Certain members of our support staff lack a "sales attitude," have an adversarial attitude toward the sales staff, have an "it's not my job" attitude. ◦ Salespeople often do not follow procedures. ◦ Lack of a formal budget process results in expenses that could be avoided or delayed. <p>Threats</p> <ul style="list-style-type: none"> ◦ A new competitor started up its operation nearby 18 months ago and is cutting prices to attract market share. ◦ New competitor has lured away two of our employees with offers of better pay. 	<p>◦ Implementing a</p>

No one wants to feel foolish in front of the group, so people listen carefully to what is said and think hard about possible responses.

The facilitator should be certain that all SWOTs are recorded on the chart. As pages of the flip chart become full, tack them up around the room where everyone can see them. They will be used again.

When the facilitator has gone around the room several times and every conceivable SWOT has been identified, the group is ready for the next phase of the planning session.

Mission Statement

An organization's mission statement (usually no more than one or two sentences) describes the purpose of the organization. It enables all members of the organization to share the same view of the company's goals,

philosophy and future direction. It should include the

- Reason the organization exists (management's mission).
- Products and services offered.
- Clientele served.
- Nature and location of the business's marketing territory.
- Areas of specialization.
- *.Future direction of the company.

Every organization needs a mission statement and many require one for each area of the company. By building your business plans around a well-conceived mission statement, your company can more effectively use its limited resources. Stated differently, the mission statement helps your company move beyond "trying to do everything right" toward "doing the right thing." The facilitator should lead the group in establishing (or redefining) the company's mission statement in view of the external economic environment and the SWOTs discussed earlier.

Let's take a look at some sample mission statements:

- The Johnson Corporation of Ohio is dedicated to maintaining its position as a leader in providing quality insurance and financial service products to businesses and individuals through a staff of highly trained people sharing a tradition of integrity and service to its clients.

Budget Travel provides economical vacation travel and related services to customers in the greater Chicago area, who expect efficient, problem-free travel arrangements at a low cost.

- Our goal is simply stated. We want to be the best service organization in the world.-IBM
- Whitefield Markets' goal is to be the lowest cost provider of quality foods and groceries in the West Orange area, and eventually in the entire state.
- Velvet Green Nurseries' goal is to provide a full range of high quality wholesale and retail nursery products to professional landscapers and discriminating homeowners.
- Performance Plus manufactures and sells high performance auto parts to the U.S. market. While our primary thrust will be to increase our present product line to better serve existing markets, we will also actively expand into the Canadian market.
- Smith Packaging Company's mission is to be the lowest cost producer of pork products in Delaware.

Key Results Areas (KRAs)

Most companies have from 8 to 15 key results areas (KRAs), areas in which the organization must achieve success to grow and prosper. The company's objectives and tactics can be grouped into these key areas, making it easier to process and prioritize objectives, allocate resources and coordinate with other areas.

The facilitator should lead the group in identifying KRAs for the business. Many of the KRAs (increase revenues, improve financial condition, etc.) are developed from the SWOTs. Some examples of KRAs are

- Increase revenues.
- Improve financial condition (profitability, liquidity, solvency, credit and collections policies, etc.).
- Keep pace with or outdistance the competition.
- Improve efficiency and productivity.
- Achieve and maintain superior customer service.
- Capitalize on emerging trends.
- Increase utilization of technology to **improve** operations.

Improve labor relations, human resource development and training (personnel issues: salary administration, job descriptions, benefits, personnel manuals, etc.).

- Improve internal communications.
- Improve distributor and/or supplier relationships.
- Improve public relations, advertising, promotions, etc.
- Improve or enhance products and services.
- Capitalize on the physical facilities (location, capacity, layout, parking, etc.).

- Improve or enhance insurance coverage.
- Capitalize on or improve organizational structure.
 - Arrange for the orderly retirement and transfer of ownership and control of senior owners to junior owners or potential owners.

Strategic Objectives

Usually there will be one or two strategic objectives for each KRA, but occasionally there are more. Strategic objectives describe conditions the organization wishes to achieve. As with all objectives, it is important to make them as quantifiable as possible. Two examples of strategic objectives follow:

Example #1

Key results area: Increase revenues
 Strategic objectives: Increase revenues from new customers, expand sales to existing customers, acquire other related businesses, open new branches, market new products or services and achieve levels of investment income and inflation to achieve

in revenues by Dec. 31, 19__

\$ - in revenues by Dec. 31, 19__

\$ _____ in revenues by Dec. 31, 19__
 _____ in revenues by Dec. 31, 19__
 _____ in revenues by Dec. 31, 19__

Example #2

Key results area: Improve financial condition. Strategic objectives: Establish and maintain a financial condition

sufficient to support planned growth through liquidity, solvency and profitability for the four years listed, as follows:

19- 19- 19- 1

Liquidity

Solvency				
Achieve net worth of \$	\$	\$	\$	\$
Profitability				
Achieve pretax profit \$ margin of	\$	\$	\$	\$

Achieve a working capital position of \$ _____

Tactical Objectives

Establish tactical objectives to support each strategic objective. Tactical objectives are specific, usually short-term, objectives, aimed at supporting the strategic objective. Eventually you will prioritize these tactical objectives, assign responsibilities and agree to target dates for completion.

One easy way to develop tactical objectives is to return to the ideas from the SWOT analysis. Group each idea into one of the key results areas. For example, say 12 SWOTs were identified that could either positively or negatively affect KRA #1, "Increase Revenues." Use those SWOTs to develop tactics for the increase revenues strategy. Capitalize on areas identified as strengths and opportunities and try to reduce or eliminate weaknesses and threats.

If your strategic objective is to expand sales to existing customers, some tactical objectives might be to

- Produce and market a new product (take advantage of an opportunity).
- Develop and market a new service (take advantage of an opportunity).
- Identify a specific product or service you have been successful with and develop a plan to promote that product or service to every customer who doesn't yet have it (capitalize on a strength).
- Retain strong sales staff or replace weak sales staff (correct a weakness).

Revise traffic flow of store or change displays, signs, etc. (correct a weakness or capitalize on a strength).

- Change marketing or advertising theme (take advantage of an opportunity).

●

- **Establish a sales campaign with meaningful incentives** (take advantage of an opportunity).
- **Change salary program for salespeople from fixed to variable salary based on sales** (correct a weakness).

After you have categorized and established tactics to address each SWOT, proceed with the next phase of the process. strategic objectives and all the supporting tactical

Budgeting and the Strategic Plan

The strategies and tactics that you choose will affect revenues and expenses to differing degrees. You need to consider the potential impact of each objective on both revenues and expenses so that you can prioritize them and reflect them in future budgets.

Target Dates

Be realistic in setting target dates. It is **important that you** resist the temptation to set extremely **ambitious target** dates for your objectives. In most cases, the tactics you have agreed on will be accomplished by people who already have a full day's work. Each employee must be given sufficient time to achieve the specific objectives assigned to him or her, or the plan will quickly be viewed as impossible to accomplish and useless.

When assigning a tactical objective, let the recipient tell the group how long it will take to achieve, and accept that target date, if at all possible. Appendix B displays a suggested format for the strategic plan.

Coordinating and Monitoring the Strategic Plan

For maximum sustained results, an overall coordinator for the strategic plan should be appointed. That person is responsible for bringing together the various pieces of the business plan into one comprehensive plan and for monitoring the plan.

The form in Appendix C can be used to display the

objectives for each key strategy area. It also lists the person responsible and the agreed-upon target date for each objective, with a section for comments. An example of how the completed form might look is shown in Appendix C-1.

Appendix D is an Individual Objective Summary/Status Report, which enables an individual to track the status of each objective for which he or she is responsible and report monthly to the strategic plan coordinator.

The monitoring process should be made as simple as possible. Each month, the strategic plan coordinator collects the updated individual objective summary/status reports from employees and makes certain that all objectives in the plan have been accounted for. He or she makes note of shortfalls, needs for reforecasts or meetings to be called, and documents progress in a brief memorandum to all strategic plan participants. For example

- At the end of April, we are on target or ahead of plan in all but two tactical objectives. The attached individual objective summary/status reports describe the status of every objective.
- Where a shortfall exists, I have highlighted the shortfall and noted the actions being taken.
- Overall we are well on our way to achieving our major objectives.

When the above procedures have been discussed with the

strategic plan should be completed and ready for use. The

COMPLETING AND COMMUNICATING THE PLAN

group, agreement should be reached on when the written

method of communicating the content of the plan to all employees should also be discussed.

No treatment of this subject would be complete without mention of the fact that some strategic plans fail. The major reasons are

- Strategy was defined incorrectly.
- The plans lacked detailed implementation steps with tasks, schedules and responsibilities.

o Goals were not stated in clear and quantifiable terms.

o Planning did not involve input of key managers.
The process described in this booklet avoids these pitfalls and has proven effective with small businesses.

APPENDIX A: STRATEGIC PLANNING SESSION AGENDA

Dates:

Location:

Facilitator:

Recorder:

Time	Topic	Responsibility
Day 1		
8:00-8:05	Opening comments	President
8:05-8:15	Review agenda	Facilitator
	Review procedures for session	
	Review roles of facilitator and recorder	
8:15-8:30	Review completed analysis of external environment	Preparer of analysis
8:30-10:00	SWOT analysis -Part One	Facilitator and group
	Roundtable discussion to identify and document all of the company's strengths, opportunities, weaknesses and threats (SWOTS)	
10:00-10-15	Coffee break	
10:15-12:00	SWOT analysis -Part Two	Facilitator and group
	Continue SWOT analysis	
12:00-12:45	Lunch	
12:45-2:30	Develop or redefine mission statement for organization (statement of purpose)	Facilitator and group
2:30-2:45	Coffee and soft drink break	
2:45-3:30	Analysis and identification of key results areas (areas in which the company must achieve significant results in order to achieve the kind of revenues and profits desired)	Facilitator and group
3:30-5:00	Establish strategic objectives (objectives that are descriptive of a condition you want to achieve) within each key result area	Facilitator and group
5:00-6:30	Dinner	
Day 2		
8-00-8:05	Opening comments	President
8:15-10:00	Establish tactical objectives to address SWOTs-Part One	Facilitator and group
10:00-10:15	Coffee break	
10:15-12:00	Establish tactical objectives to address SWOTs-Part Two	Facilitator and group
12:00-12:45	Lunch	
12:45-1:45	Integration of budgeting process into the strategic plan	Facilitator and group
1:45-2:00	Coffee and soft drink break	
2-00-4:00	Prioritizing objectives, assigning responsibilities and establishing target dates	Facilitator and group
4:00-4:30	Discussion of strategic plan coordination and monitoring. Includes discussion of strategic plan format and appointment of coordinator to monitor plan and keep everyone advised when shortfalls or reforecast situations arise.	Facilitator and group
4:30-4:45	Arrange timing of written report and method of communicating the plan to all employees of the organization	Facilitator and group
4:45-5:00	Closing comments	President

APPENDIX B: STRATEGIC PLAN FORMAT

Cover

Table of contents

Mission statement

Summary of key results areas (strategies)

Objectives, responsibilities and targets

- for (enter key results area #1)
- for (enter key results area #2)
- for (enter key results area #3)
- for (enter key results area #4)
- for (enter key results area #5)
- for (enter key results area #6)
- for (enter key results area #7)
- for (enter key results area #8)
- for (enter key results area #9)
- for (enter key results area #10)
- for (enter key results area #11)
- for (enter key results area #12)

Individual objectives summaries/status reports

- for (enter employee's name)

APPENDIX C: OBJECTIVES, RESPONSIBILITIES AND TARGETS

Key results area:
Strategy statement:

Tactical objecdves	Responsibility	Target date	Status
--------------------	----------------	-------------	--------

APPENDIX C-1: OBJECTIVES, RESPONSIBILITIES AND TARGETS (SAMPLE)

Key results area: Achieve and maintain superior customer service.

Strategy objective: Enhance customer service to distinguish our business from the competition and to generate repeat customers and referrals.

Tactical objectives	Responsibility	Target date	Status
1. Survey key customers to assess current level of service and determine their expectations regarding ideal service.	Dale Harris	1-15-91	
2. Establish and staff toll-free (800) number for customer orders and questions.	Dan Devlin	2-15-91	
3. Establish well-understood customer service standards and guidelines.	Dale Harris	3-15-91	
4. Change human resource programs to build staff that takes pride in customer satisfaction.			
Proposals to management due as follows:			
• Recruiting/hiring/orientation	Debra Goldstein	4-30-91	
• Ongoing training	Joan Lupacchino	5-15-91	
• Performance appraisals/rewards	Fred Monti	5-15-91	

APPENDIX D: INDIVIDUAL OBJECTIVES

Summary/Status Report for (Employee Name)

Tactical objectives	Responsibility	Target date	Status
---------------------	----------------	-------------	--------

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications, P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- Service Corps of Retired Executives (SCORE), a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- Small Business Development Centers (SBDCs), sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- Small Business Institutes (SBIs), organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory-or write to the addresses below:

Consumer- Information Center (CIC)

P.O. Box 100
Pueblo, CO 81002

The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC) Publications Request

Washington, DC 20207

The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal

agencies.

U.S. Department of Health and Human Services (HHS)

Public Health Service
Alcohol, Drug Abuse and Mental Health
Administration

5600 Fishers Lane
Rockville, MD 20857

Drug Free Workplace Helpline: **1-800-8434971**. Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline:
1-800-662-4357. Provides information on preventing substance abuse in the workplace.

the National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury

Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- o Trade association information
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- o Books
Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.
- o Magazine and newspaper articles
Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

This publication was printed at the UNICOR Print Plant, Federal Medical Center, Fort Worth, Texas.